Strategic Professional – Options

Advanced Taxation – Singapore (ATX – SGP)

Tuesday 4 December 2018

ATX SGP ACCA

Time allowed: 3 hours 15 minutes

This question paper is divided into two sections:

Section A – BOTH questions are compulsory and MUST be attempted

Section B – TWO questions ONLY to be attempted

Tax rates and allowances are on pages 2–4

Do NOT open this question paper until instructed by the supervisor.

This question paper must not be removed from the examination hall.

ATX – SGP

Think Ahead ACCA

The Association of Chartered Certified Accountants

SUPPLEMENTARY INSTRUCTIONS

1. You should assume that the tax rates and allowances for the year of assessment 2018 will continue to apply for the foreseeable future.
2. All apportionments should be made to the nearest month.
3. Calculations and workings need only be made to the nearest $.
4. All workings should be shown.

TAX RATES AND ALLOWANCES

The following tax rates and allowances are to be used in answering the questions

Goods and services tax

Standard rate	7%
Registration threshold	$1 million

Buyer's stamp duty for all properties

Purchase price or market value	
First $180,000	1%
Next $180,000	2%
Remaining amount	3%

Additional buyer's stamp duty for residential properties

Foreigners and entities buying a first and subsequent residential property	15%
Singapore permanent residents buying a first residential property	5%
Singapore permanent residents buying a second and subsequent residential property	10%
Singapore citizens buying a second residential property	7%
Singapore citizens buying a third and subsequent residential property	10%

Seller's stamp duty for residential properties

For purchases from 1 January 2017 to 10 March 2017	
Property disposed of within one year of purchase	16%
Property disposed of within more than one year and up to two years of purchase	12%
Property disposed of within more than two years and up to three years of purchase	8%
Property disposed of within more than three years and up to four years of purchase	4%
For purchases on or after 11 March 2017	
Property disposed of within one year of purchase	12%
Property disposed of within more than one year and up to two years of purchase	8%
Property disposed of within more than two years and up to three years of purchase	4%

Seller's stamp duty for industrial properties

Property disposed of within one year of purchase	15%
Property disposed of within more than one year and up to two years of purchase	10%
Property disposed of within more than two years and up to three years of purchase	5%

Stamp duty on transfer of shares

Purchase price or net asset value of the shares	0·2%

Corporate income tax

Rate – Year of assessment 2018	17%
Corporate income tax rebate (capped at $10,000)	20%

Partial tax exemption	$
First $10,000 of chargeable income is 75% exempt	7,500
Next $290,000 of chargeable income is 50% exempt	145,000
Total	152,500

Full tax exemption for new start-up companies	$
First $100,000 of chargeable income is 100% exempt	100,000
Next $200,000 of chargeable income is 50% exempt	100,000
Total	200,000

Central Provident Fund (CPF)
Contributions for individuals below the age of 55 years and earning more than $750 per month

	Employee	**Employer**
Rates of CPF contributions	20%	17%
Maximum monthly ordinary wages (OW) attracting CPF	$6,000	

For the year 2017 (i.e. from 1 January 2017 to 31 December 2017)

Maximum annual ordinary wages (OW) attracting CPF	$72,000
Maximum annual additional wages (AW) attracting CPF	$102,000 less OW subject to CPF

Personal income tax for the year of assessment 2018

	Chargeable income $	Tax rate %	Tax $
On the first	20,000	0	0
On the next	10,000	2·0	200
On the first	30,000		200
On the next	10,000	3·5	350
On the first	40,000		550
On the next	40,000	7·0	2,800
On the first	80,000		3,350
On the next	40,000	11·5	4,600
On the first	120,000		7,950
On the next	40,000	15·0	6,000
On the first	160,000		13,950
On the next	40,000	18·0	7,200
On the first	200,000		21,150
On the next	40,000	19·0	7,600
On the first	240,000		28,750
On the next	40,000	19·5	7,800
On the first	280,000		36,550
On the next	40,000	20·0	8,000
On the first	320,000		44,550
Above	320,000	22·0	

Personal income tax reliefs for the year of assessment 2018

Earned income	**Standard (max)**	**Handicapped (max)**
Below 55 years	$1,000	$4,000
55 to 59 years	$6,000	$10,000
60 years and above	$8,000	$12,000
Spouse relief	$2,000	$5,500
Qualifying child relief (per child)	$4,000	$7,500
Working mother's child relief (WMCR)	**% of mother's earned income**	
First child	15%	
Second child	20%	
Third child	25%	
Maximum cumulative WMCR	100%	
Maximum relief per child	$50,000	
Parent relief	**Standard (max)**	**Handicapped (max)**
Not living in the same household	$5,500	$10,000
Living in the same household	$9,000	$14,000
Grandparent caregiver relief	$3,000	
Dependent handicapped sibling relief	$5,500	
Life assurance relief	$5,000 (max)	
Voluntary CPF contribution of self-employed	Capped at $37,740 or 37% of assessable trade income whichever is lower	
Course fees	$5,500 (max)	
NSman	**Non-key appointment holder**	**Key appointment holder**
Active NSman	$3,000	$5,000
Non-active NSman	$1,500	$3,500
Wife/widow/parent of NSman	$750	$750
Foreign maid levy relief	$6,360 (max)	
Supplementary retirement scheme		
Foreigners	$35,700 (max)	
Singaporeans and Singapore permanent residents	$15,300 (max)	
Total amount of personal income tax reliefs	$80,000 (max)	

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Question 1 begins on page 6.

Section A – BOTH questions are compulsory and MUST be attempted

1 Guo Jing and Huang Rong are China citizens who became equal shareholders of Eagle Shoot Pte Ltd (ESPL), a company which they incorporated in Singapore in April 2014. Since its incorporation, ESPL has been holding its annual board of directors' meetings in Singapore. ESPL's principal business is that of software consultancy as well as the development of software for sale to external parties.

For the year ended 31 March 2017, ESPL's adjusted trading loss was $100,000 **before** claiming capital allowances and before adjusting for the following capital expenditure items (a) to (d) which were all capitalised in the accounts:

(a) Costs of $500,000 incurred in Singapore during the year ended 31 March 2017 for the development of office system software used in connection with its human resources and payroll management.

(b) Costs of $700,000 consisting of salary costs for in-house software engineers and other consumable costs incurred in respect of new research and development activities during the year ended 31 March 2017. These activities related to the development of a cloud-enabled video analytic platform which provides a common exchange repository, likely to be the first of its kind in Singapore. ESPL can demonstrate the complexity and technical uncertainty associated with the creation of this final product, which employs revolutionary state-of-the art techniques. These techniques entail iterative steps taken to test potential solutions to the creation of the new product.

(c) Minor renovations involving the replacement of doors and windows costing $10,000 took place in April 2016. These costs were in addition to the $350,000 of qualifying expenditure incurred by ESPL in respect of its first renovation exercise which took place during the financial year ended 31 March 2016.

(d) On 26 March 2017, ESPL made an advance payment of $15,000 in relation to a training course for its software engineers. This amount was classified as an asset in the accounts, being a prepayment of an expense. The training was conducted by a guest trainer at ESPL's premises on 2 April 2017.

Additional information in relation to the accounts:

(e) An industrial building which was bought on 1 April 2015 to house ten software engineers (about 10% of the company's total workforce) was sold on 28 March 2017. This disposal resulted in a gain of $3 million and in arriving at the adjusted trading loss of $100,000, this amount was treated as a capital gain in the company accounts and not subject to tax. ESPL immediately used the sales proceeds partly to repay a short-term bank loan (which financed the purchase of this industrial building) and partly to fund its expanding research and development plans.

ESPL has not claimed any enhanced deductions or allowances under the productivity and innovation credit scheme in the past.

Since 1 April 2016, ESPL has a 90%-owned subsidiary, Shen Deow Pte Ltd (SDPL), which is incorporated in Singapore and employs 30 staff. The remaining 10% stake in SDPL is held by Yang Guo, the godson of Guo Jing. SDPL reported an adjusted trading profit after capital allowances of $100,000 for the year ended 31 March 2017.

Since 1 April 2016, SDPL has an 80%-owned subsidiary, Er Mei Pte Ltd (EMPL), which is also incorporated in Singapore and employs 20 staff. The remaining 20% stake in EMPL is held by Guo Xiang, the daughter of Guo Jing and Huang Rong. EMPL reported an adjusted trading profit after capital allowances of $2 million for the year ended 31 March 2017.

Required:

As the tax adviser to Eagle Shoot Pte Ltd (ESPL) write a letter to the board of directors advising on the following matters:

(i) The tax deductibility of each of the items (a) to (d).

The following mark allocation is provided as guidance for this requirement:

(a) 4 marks
(b) 8 marks
(c) 2 marks
(d) 2 marks

(16 marks)

(ii) The potential tax liabilities arising from the sale of the industrial building in (e).

Note: Calculations are not required for this part. (5 marks)

(iii) The income tax payable by ESPL for the year of assessment 2018; and whether ESPL can and should apply group relief to optimise the tax position of the group.

Note: Your answer should include consideration of the impact on ESPL's income tax payable under the following two options: (1) the maximum available capital allowances are claimed in full; and (2) any capital allowance claims are deferred. (10 marks)

Professional marks will be awarded in question 1 for the appropriateness of the format, presentation and structure of the letter, the effectiveness with which the information is communicated and its logical flow. (4 marks)

(35 marks)

2 Jennifer Stone is an unmarried citizen of Country X and has been working for Heaven Dragon Limited (HDL) in Country X for three years since graduating from university in 2015. For the year ended 31 December 2016, Jennifer paid individual tax of $40,000 in Country X in respect of the income earned from exercising her employment with HDL in Country X. This was her only source of income.

On 1 January 2017, Jennifer was seconded to work as a regional marketing director in the Singapore representative office of HDL for a period of two years, during which time she will only perform marketing and liaison work. Her job requires her to travel frequently to other countries in Asia.

Had Jennifer remained in Country X, her tax for the year ended 31 December 2017 was expected to be $40,000, i.e. the same as the previous year.

Jennifer is the only child of her retired parents, who both have no income and are in their seventies. When Jennifer moved to Singapore on 1 January 2017, her parents moved with her.

The following additional information is available regarding Jennifer for the year of assessment 2018:

1. Income and benefits in kind

– A monthly basic salary of $25,000.
– A contractual bonus equal to two months' salary, paid in January 2019.
– A sign-on bonus of $100,000, to be paid upon completion of 18 months' service.
– A monthly transport allowance of $1,000. During the year, Jennifer spent $2,000 of this allowance on taxi journeys for business purposes.
– A fully furnished apartment for Jennifer and her parents to live in. The apartment was rented by HDL for a monthly rental of $6,000. Jennifer was required to pay a nominal monthly rental of $1,000.

2. Travel schedule of visits made outside Singapore for business purposes

Date of departure from Singapore	Date of arrival in Singapore	Countries visited
13 February 2017	26 February 2017	China
17 April 2017	22 April 2017	Korea
21 June 2017	29 June 2017	Japan
11 August 2017	22 August 2017	India
10 October 2017	19 October 2017	Malaysia
14 November 2017	18 December 2017	Laos

Required:

(a) Explain the benefits of the area representative scheme and the conditions Jennifer must satisfy in order to qualify for the scheme. (5 marks)

(b) Calculate Jennifer's income tax payable for the year of assessment 2018. (10 marks)

(c) Explain, with supporting calculations, how your answer to part (b) would differ if Jennifer were covered by either a tax protection or a tax equalisation plan offered by her employer. (10 marks)

(25 marks)

Section B – TWO questions ONLY to be attempted

3 Terrestrial Land Pte Ltd (TLPL) is a company incorporated and registered for goods and services tax (GST) in Singapore. Its principal business is that of developing and selling residential, commercial and industrial properties and providing related property services.

During the quarter ended 30 June 2018, TLPL generated the following revenue:

Type of supply	Value of supplies
Sale of residential properties	$1,200,000
Sale of commercial properties	$8,400,000
Sale of industrial properties	$15,000,000
Provision of one-stop online resource services to overseas customers (note 1)	$400,000
Total turnover	$25,000,000

Note 1:
One-stop online resource services were provided to overseas individuals and business customers interested in renting both residential and commercial properties in Singapore. In return for an online subscription fee, these customers are able to view and select suitable rental properties from TLPL's website, access free listings and receive transaction and legal document support. This allows savings to be made in respect of agent fees and it charges a lower fee for transaction support as compared to traditional property transactions. For GST purposes in Singapore, these customers are regarded as belonging outside Singapore.

TLPL incurred total input tax of $300,000 during the quarter ended 30 June 2018, of which 15% is attributable to residential properties, 25% to commercial properties and 48% to industrial properties. The remaining 12% represents input tax incurred on general expenses which relate to the company as a whole and are not directly attributable to any category of properties.

Required:

(a) Compute the amount of input tax which can be claimed by Terrestrial Land Pte Ltd (TLPL) in the quarter ended 30 June 2018. Ignore the impact of any longer period adjustments. (7 marks)

(b) Discuss how TLPL should determine whether its overseas customers of online resource services belong in Singapore and state the goods and services tax implications for TLPL. (13 marks)

(20 marks)

4 Shaolin Temper Pte Ltd (STPL) and Wutang Temper Pte Ltd (WTPL) are both companies which are incorporated and tax resident in Singapore. STPL sells furniture. WTPL had sold fish since its incorporation on 1 January 2011 until 31 December 2014. From 1 January 2015, WTPL changed its business to that of selling furniture.

Both companies have a 31 December year end.

STPL will amalgamate with WTPL on 1 July 2017, after which STPL will be the surviving amalgamated company.

The following are details of WTPL's unabsorbed tax loss items as at 1 July 2017:

– Unabsorbed trade losses of $78,000 in respect of the year ended 31 December 2013 (from selling fish).
– Unabsorbed trade losses of $27,000 in respect of the period from 1 January 2017 to 30 June 2017 (from selling furniture).
– Unabsorbed capital allowances of $21,000 for the year of assessment (YA) 2016.
– Unabsorbed capital allowances of $9,000 for YA 2017.
– Unabsorbed donations of $30,000 for YA 2017.

The following information relates to STPL for the year ended 31 December 2017:

– Its adjusted trade profit from selling furniture was $195,000.
– It derived rental income of $60,000.
– Current year capital allowances for YA 2018 amounted to $45,000.

Prior to the amalgamation, there had been no changes in the shareholdings of either STPL or WTPL since they were incorporated in Singapore.

Required:

(a) Assuming that the amalgamation of Shaolin Temper Pte Ltd (STPL) and Wutang Temper Pte Ltd (WTPL) is a qualifying amalgamation:

(i) Explain the tax implications of the amalgamation for both companies, together with any administrative requirements which need to be satisfied. (7 marks)

(ii) Explain the conditions which need to be satisfied in order for WTPL's unabsorbed tax loss items from prior years to be set off against the trading profit of STPL for the year of assessment 2018. (5 marks)

(b) Compute STPL's minimum income tax liability for the year of assessment 2018.

Note: You should assume that the conditions you identified in part (a)(ii) are satisfied. (8 marks)

(20 marks)

5 Look Tink Jee Limited (LTJL) is a company incorporated and tax resident in Country Y. Like Singapore, Country Y operates a modified territorial system whereby foreign income earned outside Country Y will only be taxed upon remittance to Country Y unless exempted by any applicable tax laws in Country Y. Country Y has signed a comprehensive tax treaty with Singapore which follows the OECD Model Tax Convention. LTJL currently has subsidiaries in seven countries in Asia, excluding Singapore.

LTJL's principal business is the sale of high-end application software solutions. The company's sales staff travel to the seven Asian countries to sell these software solutions to customers. In addition to selling, sales staff also provide maintenance, consultancy and other after-sales services to LTJL's customers.

To service customers, sales staff could be visiting them in their respective offices in certain countries and such visits may range from a few days to a few months. In other countries where more significant support is required, LTJL will rent external office space for a longer period of one or two years. LTJL also rents warehouses for the storage of certain software supplies in the seven Asian countries.

LTJL relies on a network of third party agents in the seven countries in Asia. These agents participate in the negotiation of the terms and conditions of sales agreements before these agreements are signed by LTJL back in Country Y.

Due to the high flat corporate tax rate of 30% in Country Y, LTJL has decided to relocate half of its sales team in Country Y to a newly created Singapore subsidiary, Look Tink Jee Singapore Pte Ltd (LTJSPL). As far as possible, sales will be made from the Singapore entity directly to the end customers in the seven Asian countries.

Although Country Y taxes income derived from both local and foreign sources, the latter is levied only when such foreign income is remitted to Country Y. Hence, LTJL hopes to achieve tax savings from taking advantage of the differences in tax rates between Singapore and Country Y.

Required

(a) State any FIVE characteristics of the Singapore tax system which makes Singapore an attractive choice for Look Tink Jee Limited (LTJL) to locate its overseas subsidiary. (5 marks)

(b) As a result of LTJL's creation of its Singapore subsidiary, Look Tink Jee Singapore Pte Ltd (LTJSPL), discuss the potential exposure to double taxation for LTJSPL based on its planned activities. State any actions which should be taken to mitigate this exposure.

Note: Your answer should include consideration of the circumstances in which LTJSPL may create an overseas permanent establishment in one or more of the seven Asian countries. (15 marks)

(20 marks)

End of Question Paper